OFFICE OF FISCAL ANALYSIS

Room 5200, Legislative Office Building
Hartford, CT 06106 – (860) 240-0200
E-Mail: ofa@cga.ct.gov
www.cga.ct.gov/ofa

Status of Build America Bonds

The State issued approximately $1.9 billion in Build America Bonds (BABs) before the federal program ended on January 1, 2011.

Build America Bond Issuances (in thousands)

Issuance Date	General Obligation Bonds $	Special Tax Obligation Bonds – Transportation $	Final Maturity
28-Oct-09	-	304,030	1-Dec-29
15-Dec-09	450,000	-	1-Dec-29
20-Apr-10	184,250	-	1-Apr-26
19-Oct-10	294,395	-	1-Oct-30
19-Oct-10	203,400	-	1-Oct-29
19-Oct-10	22,205	-	1-Oct-30
10-Nov-10	-	400,430	1-Nov-30
TOTAL	**1,154,250**	**704,460**	

The program provides a federal subsidy of 35% on interest payments made over the term of the borrowing to service taxable BAB debt that any state or municipality issues. The subsidy is reflected in the Federal Grants category of the General and Transportation Fund revenue schedules. Due to federal sequestration, the subsidy on interest payments has been reduced. See the table below for an illustration of that reduction. It is anticipated that this reduction will continue until sequestration ends.

The Effect of Sequestration on Build America Bond Interest Subsidies for the General Fund and the Special Transportation Fund (in millions)

Fiscal Year	General Fund $				Special Transportation Fund $			
	Interest Subsidy	Seques-tration[1]	(Offsets)[2]	Net Subsidy	Interest Subsidy	Seques-tration[1]	(Offsets)/ Refunds[3]	Net Subsidy
10	-	-	-	-	3.0	-	-	3.0
11	22.3	-	-	22.3	9.3	-	0.1	9.4
12	27.6	-	-	27.5	13.1	-	(0.2)	12.9
13	27.6	(0.4)	(0.1)	27.1	13.1	(0.6)	(0.1)	12.4
14	27.6	(2.1)	(0.5)	25.0	13.1	(0.9)	-	12.1
15	27.6	(2.2)	-	25.4	13.1	(1.0)	-	12.1

[1]The figures reflect a reduction of 8.7% for federal fiscal year 13 and 7.2% for fiscal year 14. The new rate for fiscal year 15 is estimated to be 7.3%.

[2]The Treasury Offset Program collects debts owed to the federal government. The state's BAB subsidy payments are reduced by the amount due to the federal government, usually for the federal employment taxes that are paid by the Office of the State Comptroller. The net effect of the offset on the state's financial position is zero.

[3] The state refunds federal offsets taken against BAB subsidy payments to the Special Transportation Fund (STF) because the STF does not have any federal liability.

Background

BABs are taxable municipal bonds that carry a special federal subsidy for 35% of the interest paid on the bonds, which is paid to the bond issuer. BABs were created by the American Recovery and Reinvestment Act of 2009. The purpose of BABs was to reduce the cost of borrowing[1] for state and local government issuers and the program was open to new issue capital expenditure bonds (not refunded bonds) issued before January 1, 2011. The program was not renewed by Congress.

Due to the federal budget sequestration of 2013[2], interest subsidy payments to issuers of BABs were reduced by 8.7% in federal fiscal year 13 and 7.2% in federal fiscal year 14 and are estimated to be reduced by 7.3% in FFY 15. Connecticut issued BABs under both the General Obligation and Special Tax Obligation bond programs, as noted in the table above.

[1]According to the United States Department of the Treasury, the savings for a 10 year bond are estimated to be 31 basis points and the savings for a 30 year bond are estimated to be 112 basis points versus traditional tax-exempt financing.

[2]The federal budget sequestration of 2013 refers to automatic spending cuts to United States federal government spending in particular categories of outlays that began on March 1, 2013. The reductions in spending authority are approximately $85.4 billion during fiscal year 2013, with similar cuts for federal fiscal years 2014 through 2021.